

KEEGAN, WERLIN & PABIAN, LLP

ATTORNEYS AT LAW
265 FRANKLIN STREET
BOSTON, MASSACHUSETTS 02110-3113

(617) 951-1400

TELECOPIERS:
(617) 951-1354
(617) 951-0586

December 7, 2004

Mary L. Cottrell, Secretary
Department of Telecommunications and Energy
One South Station, 2nd Floor
Boston, MA 02110

Re: D.T.E. 04-118, Boston Edison Company, Cambridge Electric Light Company,
Commonwealth Electric Company, NSTAR Gas Company – 2005 Pension
Adjustment Factor Filing

Dear Secretary Cottrell:

Boston Edison Company ("Boston Edison"), Cambridge Electric Light Company ("Cambridge"), Commonwealth Electric Company ("Commonwealth") and NSTAR Gas Company ("NSTAR Gas") (together, "NSTAR" or the "Companies") hereby submit an original and nine (9) copies of their 2nd annual Pension/PBOP Adjustment Factors ("PAF") for effect January 1, 2005 (the "Filing"). The Filing is being made in accordance with the Department's order in Boston Edison Company/Cambridge Electric Light Company/Commonwealth Electric Company and NSTAR Gas Company, D.T.E. 03-47-A (2003). The Filing applies the methodology set forth in the Companies' first annual true up filing, dated December 1, 2003, in D.T.E. 03-47.

The proposed PAFs to become effective on January 1, 2005 are as follows:

Company	Pension Adjustment Factor
Boston Edison Company	\$0.00059 per kWh
Cambridge Electric Light Company	\$0.00122 per kWh
Commonwealth Electric Company	\$0.00121 per kWh
NSTAR Gas Company	\$0.0134 per Therm

Consistent with the design of the Company's Pension/PBOP Adjustment Mechanism, the Filing includes actual pension/PBOP cost data for September through December 2003, part-actual/part-forecast data for 2004 and forecasted kilowatthour and MMBTU sales for 2005. The Companies propose to update the Filing in the spring of 2005 to provide actual year-end data and to allow a final reconciliation for 2004.

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Included with the Filing is the prefiled testimony and exhibit of Christine L. Vaughan, Manager of Regulatory Requirements for the regulated operating companies of NSTAR. Ms. Vaughan's testimony provides a description of the methodology used by the Companies to calculate the proposed Pension/PBOP Adjustment Factors for effect January 1, 2005.

Any correspondence with regard to this filing should be directed to the following:

Robert Keegan
Stephen August
Keegan, Werlin & Pabian, LLP
265 Franklin Street
Boston, MA 02110
Tel: (617) 951-1400
Fax: (617) 951-1354
rkeegan@kwplaw.com
saugust@kwplaw.com

Tam Ly
NSTAR Electric and Gas Company
800 Boylston Street
Boston, MA 02199
Tel: (617) 424-2074
Fax: (617) 424-2733
Tam_Ly@nstaronline.com

Thank you for your attention to this matter.

Sincerely,

A handwritten signature in black ink that reads "Robert J. Keegan" with the initials "(SMA)" written in parentheses to the right of the name.

Robert J. Keegan

Enclosures

cc: Caroline Bulger, Hearing Officer
Joseph Rogers, Assistant Attorney General

NSTAR ELECTRIC AND GAS

Direct Testimony of Christine L. Vaughan

Exhibit NSTAR-CLV

D.T.E. 04-118

1 **I. INTRODUCTION**

2 **Q. Please state your name and business address.**

3 A. My name is Christine L. Vaughan. My business address is 1 NSTAR Way,
4 Westwood, MA 02090.

5 **Q. By whom are you employed and in what capacity?**

6 A. I am Manager of Regulatory Requirements for the regulated operating companies
7 of NSTAR. In this capacity, I am responsible for all regulatory filings concerning
8 the financial requirements of Boston Edison Company ("Boston Edison"),
9 Cambridge Electric Light Company ("Cambridge"), Commonwealth Electric
10 Company ("Commonwealth") and NSTAR Gas Company (together, "NSTAR" or
11 the "Company").

12 **Q. Please summarize your educational background.**

13 A. I graduated from McGill University in Montreal, Canada in 1990 with a Bachelor
14 of Engineering Degree and from Yale University in New Haven, CT in 1998 with
15 a Masters Degree in Business Administration. Additionally, I have earned the
16 right to use the Chartered Financial Analyst designation.

1 **Q. Please summarize your business experience.**

2 A. I worked as a management consultant for five years at Arthur D. Little and at
3 Charles River Associates, a company that purchased a portion of Arthur D. Little.
4 In this capacity, I assisted clients with financial issues such as acquisition support
5 and asset privatization. I also helped clients develop long-range strategic plans
6 and assisted them with market analysis. Prior to my consulting experience and
7 my MBA, I worked for six years at DuPont and BASF as a development engineer.

8 **Q. Please describe your present responsibilities.**

9 A. As Manager of Regulatory Requirements, I am responsible for directing the
10 preparation of financial data required for regulatory filings and serve as the
11 Company's financial requirements witness. My responsibilities currently include,
12 among a variety of other financial services, the reconciliation of NSTAR's
13 Transition Charge filings and the Company's Pension Adjustment Factor.

14 **Q. Have you previously testified before any regulatory body?**

15 A. Yes. I offered testimony at the Federal Energy Regulatory Commission (the
16 "FERC") in Docket No. ER05-69-000 on behalf of Boston Edison relating to the
17 modification of the Company's Tariff 8 chiefly to permit the inclusion of 50% of
18 construction work in progress in rate base. I am also concurrently sponsoring
19 testimony in D.T.E. 04-113, Boston Edison's Transition Charge filing for 2005,

1 and in D.T.E. 04-114 Cambridge's and Commonwealth's Transition Charge filing
2 for 2005.

3 **II. PURPOSE OF TESTIMONY**

4 **Q. What is the purpose of your testimony?**

5 A. My testimony addresses the Pension Adjustment Factor ("PAF") filing for the
6 Company for 2005. My testimony provides support for the Company's request
7 for approval of the proposed Pension Adjustment Factor ("PAF") to become
8 effective January 1, 2005. This filing also provides the initial true up for the 2004
9 Pension Adjustment Factor, including 2003 PAM actual expenses, and presents
10 an estimate of such expenses and revenues for 2004. However, NSTAR is not
11 requesting approval of the 2004 true-up at this time. Similar to the practice with
12 Transition Charge filings, once all 2004 data is finalized, NSTAR will make a
13 final 2004 reconciliation filing that will fully account for all costs and revenues
14 since the implementation of the PAF. At this time, NSTAR is seeking only
15 approval of the 2005 PAF for billings effective January 1, 2005.

16 **Q. Please explain the requirement for PAM Reconciliation.**

17 A. The PAM, as approved by the Department in D.T.E. 03-47-A, is designed to
18 reconcile the annual expense amounts booked by the Company for pension
19 benefits and post-retirement benefits other than pensions ("PBOP") in accordance
20 with Statement of Financial Accounting Standards No. 87 ("SFAS 87") and the

1 Statement of Financial Accounting Standards No. 106 ("SFAS 106") with the
2 annual expense amount included in the Company's base rates. The PAM
3 establishes a separate, annual rate adjustment for each distribution company and
4 will ensure that customers pay no more and no less than the amounts actually
5 needed to provide appropriate pension and PBOP benefits to the Company's
6 employees.

7 **Q. Please describe the exhibits included as attachments to your testimony.**

8 A. In addition to this testimony, NSTAR-CLV, I sponsor **Exhibit NSTAR-CLV-1**,
9 which is a four-page exhibit that summarizes the development of the Company's
10 proposed PAF for 2005 based on a preliminary reconciliation of PAM expenses
11 for the period September 1, 2003 through December 31, 2003, a forecast of
12 pension and PBOP expenses and revenues for 2004, which include nine months of
13 actual values and three months forecasted values, and a forecast of kWh and
14 MMBTUs for 2005.

15 **III. BACKGROUND OF NSTARs PAM CHARGE**

16 **Q. What is the purpose of the Company's PAM?**

17 A. In 2003, the Department approved a PAM, which allows the Company to
18 establish an annual reconciliation factor to recover the portion of the Company's
19 annual pension and PBOP expenses that are not being recovered annually through

1 the Company's base rates. The PAM was implemented because the Department
2 found that amounts required to be booked by the Company for pension and PBOP
3 expense pursuant to SFAS 87 and SFAS 106 were based on complex calculations
4 that tended to exhibit a level of volatility that was not easily reconciled with
5 pension/PBOP amounts traditionally included in base rates. The PAM is an
6 improved ratemaking approach that will allow for the recovery of pension and
7 PBOP expense in an objective, standardized manner in which customers pay no
8 more and no less than the amounts incurred by the Company to meet its pension
9 and PBOP obligations. As approved by the Department, the Company is required
10 to file an annual reconciliation of its SFAS-determined pension and PBOP
11 expense for the prior calendar year for effect beginning January 1st of each year.

12 **Q. When did the Company's PAM charge first become effective?**

13 A. With Department approval, the Company instituted its first PAFs on January 1,
14 2004 as follows:

<u>Company</u>	<u>PAF</u>
Boston Edison	\$0.00089 per kWh
Cambridge	\$0.00124 per kWh
Commonwealth	\$0.00076 per kWh
NSTAR Gas	\$0.0075 per Therm

15 These rates were designed to recover the difference between the Company's
16 pension and PBOP expenses and the amount being recovered in distribution base

1 rates for the last four months of 2003 and also provided for recovery of previously
2 authorized deferrals for Boston Edison and Cambridge. In addition, the PAFs
3 include carrying charges on the company's average prepaid pension and PBOP
4 balances. The Company's 2004 PAF rates can be found on the Company's
5 Compliance Filing in DTE 03-47-A at page 1, line 36, as filed on December 1,
6 2003.

7 **Q. What is the Company's proposed PAF for the year 2005?**

8 A. The proposed PAFs to become effective on January 1, 2005 as shown on Exhibit
9 CLV-1, page 1, line 33, are as follows.

<u>Company</u>	<u>PAF</u>
Boston Edison	\$0.00059 per kWh
Cambridge	\$0.00122 per kWh
Commonwealth	\$0.00121 per kWh
NSTAR Gas	\$0.0134 per Therm

10 **Q. Are there any notable differences between the methodology used to compute**
11 **the proposed PAF for 2005 and the methodology that was used last year?**

12 A. The basic structure continues to follow the methodology employed in the
13 Company's PAM Compliance Filing. The PAM, as approved by the Department
14 in D.T.E. 03-47-A, is intended to allow NSTAR to recover actual Pension and
15 PBOP expenses incurred above the level included in base rates, and to provide the
16 Company a carrying charge on the Company's prepaid and unamortized
17 pension/PBOP balances.

1 **IV. CALCULATION OF THE PROPOSED PAF**

2 **Q. Please describe the categories of PAM costs.**

3 A. The Company's PAM reconciliation factor consist primarily of two components:
4 (1) a Reconciliation Adjustment Component and (2) a Carrying Charge
5 Component. The Reconciliation Adjustment Component is designed to recover
6 the difference between the amount of pension and PBOP expense that is included
7 in the Company's base rates and the amount booked by the Company for pension
8 and PBOP expense pursuant to SFAS 87 (pension benefits) and SFAS 106 (post-
9 retirement benefits other than pensions). The Reconciliation Adjustment
10 Component is recovered from customers through a three-year amortization, which
11 is intended to "smooth" the amount of change reflected in the annual adjustment
12 factor from one year to the next.

13 The Carrying Charge Component recovers a carrying charge on: (1) the net
14 average prepaid pension and PBOP balances for the year and (2) the Company's
15 unamortized Reconciliation Component ("Reconciliation Deferral"). Because the
16 level of pension and PBOP expense must be "realized" each year, carrying
17 charges are applied to unrecovered balances to ensure that the Company is
18 compensated for the time value of money. Pursuant to the Department's Order in
19 D.T.E. 03-47-A, the Company applies an after-tax carrying charge rate of 8.16
20 percent to each of the Company's four distribution companies.

1 **Q. How did the Company develop its proposed PAF to become effective on**
2 **January 1, 2005?**

3 A. The proposed 2005 PAF is developed in Exhibit NSTAR-CLV-1, which reflects
4 the most current information available. The PAM costs to be recovered in 2005
5 (Exhibit NSTAR-CLV-1, Line 31) are divided by the forecast of 2005 retail billed
6 sales on Line 32 to arrive at the nominal PAF shown on Line 33.

7 **EXHIBIT NSTAR-CLV-1**

8 **Q. Please describe the Exhibit NSTAR-CLV-1.**

9 A. Exhibit NSTAR-CLV-1 represents the update to the Transition Charge and is
10 made up of the following four pages:

11	<u>Page</u>	<u>Description</u>
12	1	2005 Pension Adjustment Factor Calculation based on actual
13		amounts for 2003 and a combination of actual and forecast
14		amounts for 2004.
15	2	2004 Pension Adjustment Factor Initial True-Up, a true-up of
16		actual 2003 amounts with previously forecasted 2003 amounts as
17		well as the preliminary reconciliation of 2004 amounts.
18	3	Recoverable Pension and PBOP Plan Expenses for 2004
19		(forecasted).
20	4	Recoverable Pension and PBOP Plan Expenses for 2003.

21 **Q. Please explain Page 1, the PAF Calculation for 2005.**

22 A. Page 1 calculates the PAF for 2005 for each distribution company. The PAF
23 formula is uniform for all the NSTAR companies, so the description of its
24 calculation below applies to each company unless specifically noted otherwise.

1 As noted previously, the PAF calculation is essentially in two parts. Lines 1
2 through 7 of this page calculates the Reconciliation Adjustment by starting with
3 the Unamortized Reconciliation Deferral for 2003 on line 1, which includes the
4 sum of the Unamortized Reconciliation Deferral at December 31, 2002 (page 2,
5 line 1) and the Unamortized Reconciliation Deferral at December 31, 2003 (page
6 2, line 4) less the Reconciliation Adjustment for 2003 (page 2, line 6). Line 2
7 calculates the amortization for these balances which are on their second year of a
8 three year amortization.

9 Line 3 shows the Company's actuarially determined pension and PBOP forecast
10 expense for 2004, and is calculated in accordance with SFAS 87 and SFAS 106,
11 and adjusted to remove the non-utility business portion and the transmission
12 component. This amount is detailed on Page 3 of Exhibit NSTAR-CLV-1. Line
13 4 shows the amount of Pension and PBOP expenses currently recovered
14 distribution base rates. Since none of the NSTAR companies have had a change
15 in their base distribution rates since the Company's first PAM filing in December
16 2003, the total amount of Pension and PBOP expenses currently recovered in the
17 Company's base distribution rates remains unchanged from the Company's
18 December 2003 Compliance Filing. Line 5 calculates the difference between the
19 2004 pension and PBOP expense and that collected in rates.

Figure 1
Years included in the Reconciliation Component

	Pension Adjustment Factor			
	2004	2005	2005	2006
2002 Unamortized Reconciliation Deferral at 12.31/2002	1/3	1/3	1/3	
2003 Difference between Pension & PBOP expense and amount collected in rates (September to December only)	1/3	1/3	1/3	
2004 Difference between Pension & PBOP expense and amount collected in rates		1/3	1/3	1/3

In the case of the NSTAR Electric Companies, the Company recovers a portion of its Pension and PBOP expenses related to the transmission function from its transmission customers through the Company's Transmission Tariff. For purposes of calculating the PAF, the NSTAR Electric Companies have removed transmission related Pension and PBOP expenses and their corresponding transmission revenues from lines 3 and 4. Thus the reconciliation deferral on line 5 represents only distribution related Pension and PBOP costs.

The 2004 Reconciliation Amortization on line 5 is calculated by dividing the value on line 4 by three to determine the first year of a three-year amortization period. The total reconciliation adjustment for 2005 rate purposes is obtained by adding the portion of the 2002, 2003 and 2004 reconciliation amortization and is shown on line 7 and pictorially demonstrated in Figure 1.

1 **Q. Please explain the Carrying Charge calculation on Page 1 of Exhibit NSTAR-**
2 **CLV-1.**

3 **A. The Carrying Charge Calculation is calculated on lines 8 through 25 and includes**
4 two components: (1) a carrying charge on the Company's pension and PBOP
5 prepaid amounts; and (2) a carrying charge on the Company's Existing Deferral
6 Balance.

7 As described above, in D.T.E. 03-47-A, the Department established the allowed
8 cost of capital at 8.16 percent after tax. See D.T.E. 03-47-A at 44-45. To realize
9 this after tax carrying charge, the company calculated the pre-tax rate by
10 "grossing up" the equity component of this return by the reciprocal of the 39.225
11 percent effective tax rate. This amount, 10.88 percent, is shown on line 9.

12 Lines 10, 11 and 12 calculate the average pension prepaid. NSTAR has one
13 pension plan that covers all employees and thus has one consolidated prepaid
14 balance. The amounts shown on these lines represent only the portion of the
15 prepaid balances allocated to the Company's regulated distribution companies
16 according to NSTAR's actual labor charges in 2003. The allocation percentages
17 were changed from what was assumed in the Company's prior Compliance Filing
18 made on December 1, 2003 in order to reflect actual labor expense booked
19 amounts. In addition, the Company has reduced the amounts shown on lines 10
20 and 11 to reflect the removal of transmission-related carrying charges currently

1 being recovered through FERC approved transmission tariffs. The 2004 Average
2 Pension Prepaid amount on line 12 is then reduced for deferred taxes as calculated
3 on line 13 in order to arrive at the balance subject to a carrying charge on line 14.
4 When calculating deferred taxes, the company first reduces the average prepaid
5 by a factor of 0.82, which represents the capitalization deduction used for tax
6 purposes only on NSTAR's consolidated tax return. The remaining balance is
7 then multiplied by the 39.225 percent effective tax rate to determine the deferred
8 tax amount.

9 Lines 15 through 19 calculate the average PBOP prepaid balance subject to a
10 carrying charge and functions similarly to the Pension calculation just described.
11 There are two items worth noting, the most obvious is that the balance is actually
12 a negative number or a liability, not a prepayment. The second difference is that,
13 for tax purposes, the company uses a 0.83 capitalization factor on PBOP costs.
14 Line 20 calculates the Pension and PBOP carrying charge by adding the balances
15 on lines 14 and 19, and multiplying the total by the Company's cost of capital
16 factor on line 9.

17 Lines 21 through 24 calculate a carrying charge on the Unamortized
18 Reconciliation Deferral from line 1 and the 2004 Reconciliation Deferral from
19 line 5. These amounts are first reduced by their deferred tax impact on line 22
20 and then multiplied by the cost of capital factor on line 9.

1 Before proceeding with the calculation of the PAF for 2005, the Company must
2 first calculate an overall adjustment for 2004 PAF amounts. This true-up starts on
3 line 26 with the Forecasted 2004 Pension/PBOP Adjustment Amount, as shown
4 on Exhibit NSTAR-CLV-1, Page 2, line 35. From the amount shown on line 26,
5 the Company subtracts the forecast of 2004 PAM revenues (to calculate the Prior
6 Period Reconciliation Amount on line 28. The forecast of 2004 PAM revenues are
7 based on nine months actual revenues and three months forecasted revenues,
8 collected in accordance with the previous estimate of the 2004 PAM adjustment
9 factor. The Prior Period Reconciliation Amount represents the difference
10 between the adjusted 2003 pension/PBOP expense and the PAF revenues that
11 were actually collected in 2004.

12 In accordance with the Department's directive in D.T.E. 03-47-A, the PAM tariff
13 includes a calculation of interest at the prime rate on the Prior Period
14 Reconciliation Amount, positive or negative. The Company has calculated this
15 interest on line 29 and included it in the Past Period Reconciliation Amount
16 shown on line 30.

17 To determine the PAF to be charged to customers in 2005; the forecasted 2005
18 Pension/PBOP Adjustment amount on line 31, which is the sum of the
19 Reconciliation Adjustment on line 7, the Carrying Charges on line 25 and the Past
20 Period Reconciliation Amount on line 30, is divided by the forecasted 2005 sales

1 volumes to arrive at the proposed 2005 Pension Adjustment Factor as shown on
2 line 33. The sales volume forecast for 2005 reflects the Company's current
3 internal projection of sales and is consistent with the amounts used on NSTAR
4 Electric's Transition Charge filings and NSTAR Gas' LDAC filings.

5 **Q. Please explain Page 2, 2004 Pension Adjustment Factor Initial True-Up.**

6 A. The 2004 PAF Initial True-Up on page 2 of Exhibit NSTAR-CLV-1 is calculated
7 much the same as the forecasted 2005 PAF described above, and is consistent
8 with the Company's Compliance Filing made in D.T.E. 03-47-A and filed with
9 the Department on December 1, 2003. The changes reflect the Company's
10 current forecast of actual 2004 costs and revenues. This forecast is based on nine
11 months actual experience and three months estimated costs and revenues. Page 2
12 has been highlighted to show the numbers that have changed from the Company's
13 2003 Compliance Filing. Notably, the Department's order in 03-47-A granted
14 carrying charges on the 2003 Unamortized Reconciliation Deferral only for the
15 period September to December 2003, thus the calculated carrying charge on line
16 28 of page 2 is only for one-third of the full year. The forecast is also affected by
17 changes in the assumed allocation of Pension and PBOP costs among the NSTAR
18 Companies and removal of Pension and PBOP costs recovered from transmission
19 customers. As previously discussed, this is a preliminary true-up only for
20 purposes of determining the 2005 PAF. The amounts on this page will be revised

1 in early 2005 once the actual 2004 numbers are available. At that time, the
2 Company intends to file its final reconciliation true-up for the Department's
3 review.

4 **Q. Please describe Page 3, Recoverable Pension and PBOP Plan Expenses for**
5 **2004.**

6 A. Page 3 of Exhibit NSTAR-CLV-1 is similar to Page 2 of the Company's
7 Compliance Filing made in D.T.E. 03-47-A. This page shows the derivation of
8 the forecast. Distribution Pension and PBOP expense for 2004. It shows the
9 current Company allocation percentages on line 1. These percentages are applied
10 to NSTAR's total Pension and PBOP actuarially determined costs to arrive at the
11 recoverable Pension and PBOP expenses for each utility company. The total
12 amount shown on lines 2 and 8 reflect the FAS 87 and FAS 106 expense related
13 to the four regulated companies only. Lines 2 and 8 are then reduced by
14 approximately 31 percent on lines 3 and 9, which is the Company's current
15 capitalization experience. The net cost is then allocated to the individual
16 companies on lines 5 and 11. The transmission component is deducted in lines 6
17 and 12 in order to determine the Distribution Pension Expense on line 7 and the
18 Distribution PBOP expense on line 13. The total is summed on line 14, which is
19 then brought forward to Page 1, line 3.

1 **Q. Please describe Page 4, Recoverable Pension and PBOP Plan Expenses for**
2 **2003.**

3 A. This calculation functions identically to that described on page 3, with the
4 exception that only amounts for September through December 2003 are included,
5 consistent with the Department's order in D.T.E. 03-47-A at 33. Amounts shown
6 on page 4 reflect actual allocated amounts based on final values for calendar year
7 2003. Page 4 has been highlighted to show the values that have been changed
8 from the Company's December 2003 Compliance Filing.

9 **Q. Does this conclude your testimony?**

10 A. Yes, it does.

2005 Pension Adjustment Factor Calculation (\$'s in millions)

Line	Description	Boston Edison Col. B	Cambridge Electric Col. C	Commonwealth Electric Col. D	NSTAR Gas Col. E	Total Col. F	Description Col. G
1	Unamortized Reconciliation Deferral at 12/31/2003	\$ 4.225	\$ 2.591	\$ 1.172	\$ 2.033	\$ 10.022	See Page 2, Line 7
2	2003 Reconciliation Amortization	2.113	1.296	0.586	1.017	5.011	Line 1 * 0.5 (2nd year of 3-year amortization)
3	2004 Pension & PBOP Distribution Expense	20.399	1.015	8.611	9.624	39.649	Page 3, line 14
4	less: Pension & PBOP Expense Currently in Distribution Rates	23.185	0.948	7.224	4.818	36.175	Per Company Records
5	2004 Reconciliation Deferral	(2.786)	0.067	1.387	4.806	3.474	Line 3 - Line 4
6	2004 Reconciliation Amortization	(0.929)	0.022	0.462	1.602	1.158	Line 5 / 3 (1st year of 3-year amortization)
7	Reconciliation Adjustment For 2005	\$ 1.184	\$ 1.318	\$ 1.048	\$ 2.619	\$ 6.169	Line 2 + Line 6
8	Carrying Charge Calculation:						
9	Cost of Capital Factor	10.88%	10.88%	10.88%	10.88%	10.88%	Per D.T.E. 03-47-A (Note 1)
10	Actual Pension Prepaid at 12/31/2003 (Note 2)	\$ 157.912	\$ 8.124	\$ 55.385	\$ 53.835	275.256	Page 2, Line 11
11	Forecast Pension Prepaid at 12/31/2004 (Note 2)	162.252	8.347	56.907	55.314	282.821	Per Company Records
12	2004 Average Pension Prepaid	160.082	8.235	56.146	54.575	279.039	(Line 10 + Line 11) / 2
13	Deferred Tax on Pension	(51.490)	(2.649)	(18.059)	(17.554)	(89.751)	Line 12 * .82 * 0.39225
14	Pension Balance Subject to Carrying Charge	\$ 108.593	\$ 5.587	\$ 38.087	\$ 37.021	\$ 189.287	Line 12 + Line 13
15	Actual PBOP Prepaid at 12/31/2003	\$ (29.970)	\$ (1.542)	\$ (10.512)	\$ (10.217)	\$ (52.241)	Page 2, Line 16
16	Forecast PBOP Prepaid at 12/31/2004	(34.557)	(1.778)	(12.120)	(11.781)	(60.236)	Per Company Records (utility portion)
17	2004 Average PBOP Prepaid	(32.263)	(1.660)	(11.316)	(10.999)	(56.238)	(Line 15 + Line 16) / 2
18	Deferred Tax on PBOP	10.504	0.540	3.684	3.581	18.309	Line 17 * .83 * 0.39225
19	PBOP Balance Subject to Carrying Charge	\$ (21.759)	\$ (1.119)	\$ (7.632)	\$ (7.418)	\$ (37.929)	Line 17 + Line 18
20	Carrying Charge on Average Prepaid	\$ 9.447	\$ 0.486	\$ 3.314	\$ 3.221	\$ 16.468	((Line 14 + 19) * Line 9)
21	Reconciliation Deferral	\$ 1.439	\$ 2.659	\$ 2.559	\$ 6.839	\$ 13.496	Line 1 + Line 5
22	Deferred Tax Amount	(0.565)	(1.043)	(1.004)	(2.683)	(5.294)	Line 21 * 0.39225
23	Balance Subject to Carrying Charge	\$ 0.875	\$ 1.616	\$ 1.556	\$ 4.156	\$ 8.202	Line 21 + Line 22
24	Carrying Charge on Deferral Balance	\$ 0.095	\$ 0.176	\$ 0.169	\$ 0.452	\$ 0.892	Line 23 * Line 9
25	Total Carrying Charges	\$ 9.543	\$ 0.662	\$ 3.483	\$ 3.673	\$ 17.360	Line 20 + Line 24
26	2004 Pension/PBOP Adjustment Amount	11.245	1.998	3.714	4.087	21.044	Page 2, Line 35
27	less: 2004 Pension/PBOP Adjustment Revenue	12.773	1.952	3.046	3.559	21.330	9 month actuals, 3 months estimate
28	Prior Period Reconciliation Amount	(1.528)	0.047	0.668	0.528	(0.286)	Line 26 - Line 27
29	Interest at Prime Rate 4.377%	(0.067)	0.002	0.029	0.023	(0.013)	Prime rate as per 220 § 6.08(2)
30	Past Period Reconciliation Amount	(1.595)	0.049	0.697	0.551	(0.298)	Line 28 + Line 29
31	Forecasted 2005 Pension/PBOP Adjustment Amount	9.132	2.028	5.229	6.842	23.231	Line 7 + Line 25 + Line 30
32	Forecasted 2005 gWh (Mil. Therms for NSTAR Gas)	15.501	1.667	4.313	511		Per Company Forecast
33	2005 Pension/PBOP Adjustment Factor	0.00059	0.00122	0.00121	0.0134		Line 31 / Line 32

Note 1: This before-tax factor is equal to the after-tax factor of 8.16 percent authorized by the Department.

Note 2: The balances have been reduced by 5.07% to eliminate the amount recovered from transmission customers (3.54%) and non-utility businesses (1.53%).

2004 Pension Adjustment Factor Initial True-up (\$'s in millions)

Line	Description	Boston Edison	Cambridge Electric	Commonwealth Electric	NSTAR Gas	Total	Description
	Col. A	Col. B	Col. C	Col. D	Col. E	Col. F	Col. G
1	Unamortized Reconciliation Deferral at 12/31/2002	\$ 4.198	\$ 3.712	\$ -	\$ -	\$ 7.910	Per D.T.E. 03-47-A (Notes 1, 2)
2	2003 Pension & PBOP Distribution Expense Sept - Dec	9.869	0.491	4.166	4.656	19.182	Page 4, line 14
3	less: Pension & PBOP Expense Currently in Distrib. Rates, 4 mo	7.728	0.316	2.408	1.606	12.058	Per Company Records (Sept - Dec)
4	2003 Reconciliation Deferral	2.140	0.175	1.758	3.050	7.123	Line 2 - Line 3
5	2003 Reconciliation Adjustment	0.713	0.058	0.586	1.017	2.374	Line 4 / 3
6	Calculated Reconciliation Adjustment For 2004	\$ 2.113	\$ 1.296	\$ 0.586	\$ 1.017	\$ 5.011	(Line 1 / 3) + Line 5
7	Unamortized Reconciliation Deferral at 12/31/2003	\$ 4.225	\$ 2.591	\$ 1.172	\$ 2.033		Line 1 + Line 4 - Line 6
8	Carrying Charge Calculation:						
9	Cost of Capital Factor	10.88%	10.88%	10.88%	10.88%	10.88%	Per D.T.E. 03-47-A (Note 3)
10	Actual Pension Prepaid at 12/31/2002 (Note 4)	\$ 149,056	\$ 7,205	\$ 49,123	\$ 47,748	\$ 244,132	Per Company Records
11	Actual Pension Prepaid at 12/31/2003 (Note 4)	157,912	8,124	55,385	53,835	275,256	Per Company Records
12	2003 Average Pension Prepaid	148,584	7,664	52,254	50,791	259,694	(Line 10 + Line 11) / 2
13	Deferred Tax on Pension	(47,920)	(2,463)	(16,807)	(16,337)	(83,529)	Line 12 * .82 * 0.39225
14	Pension Balance Subject to Carrying Charge	\$ 101,064	\$ 5,199	\$ 35,447	\$ 34,454	\$ 176,165	Line 12 + Line 13
15	Actual PBOP Prepaid at 12/31/2002	\$ (29,664)	\$ (1,526)	\$ (10,464)	\$ (10,113)	\$ (51,708)	Per Company Records (utility portion)
16	Actual PBOP Prepaid at 12/31/2003	(29,970)	(1,342)	(10,512)	(10,217)	(52,241)	Per Company Records (utility portion)
17	2003 Average PBOP Prepaid	(29,817)	(1,534)	(10,458)	(10,165)	(51,974)	(Line 15 + Line 16) / 2
18	Deferred Tax on PBOP	9,708	0,499	3,405	3,309	16,921	Line 17 * .83 * 0.39225
19	PBOP Balance Subject to Carrying Charge	\$ (20,110)	\$ (1,035)	\$ (7,053)	\$ (6,856)	\$ (35,053)	Line 17 + Line 18
20	Carrying Charge on Average Prepaid	\$ 8,808	\$ 0,453	\$ 3,049	\$ 3,003	\$ 15,333	((Line 14 + 19) * Line 9)
21	Existing Reconciliation Deferral	\$ 4.198	\$ 3.712	\$ -	\$ -	\$ 7.910	Line 1
22	Deferred Tax Amount	(1.647)	(1.456)	-	-	(3.103)	Line 21 * 0.39225
23	Balance Subject to Carrying Charge	\$ 2.551	\$ 2.256	\$ -	\$ -	\$ 4.807	Line 21 + Line 22
24	Carrying Charge on Existing Deferral Balance	\$ 0.278	\$ 0.245	\$ -	\$ -	\$ 0.523	Line 23 * Line 9
25	Unamortized Reconciliation Deferral at 12/31/03	\$ 2.140	\$ 0.175	\$ 1.758	\$ 3.050	\$ 7.123	Line 4
26	Deferred Tax Amount	(0.840)	(0.069)	(0.690)	(1.196)	(2.794)	Line 25 * 0.39225
27	Balance Subject to Carrying Charge	\$ 1.301	\$ 0.106	\$ 1.068	\$ 1.854	\$ 4.329	Line 25 + Line 26
28	Carrying Charge on 12/31/03 Deferral Balance	\$ 0.047	\$ 0.004	\$ 0.039	\$ 0.067	\$ 0.157	(Line 27 * Line 9) * 1/3 of year
29	Total Carrying Charges	\$ 9.133	\$ 0.702	\$ 3.128	\$ 3.070	\$ 16.033	Line 20 + Line 24 + Line 28
30	2003 Actual Pension/PBOP Adjustment Amount	-	-	-	-	-	Line 35 prior year true-up
31	less: 2003 Actual Pension/PBOP Adjustment Revenue	-	-	-	-	-	Per Company Records
32	Prior Period Reconciliation Amount	-	-	-	-	-	Line 30 - Line 31
33	Interest at Prime Rate 4.377%	-	-	-	-	-	Prime rate as per 220 § 6.08(2)
34	Past Period Reconciliation Amount	-	-	-	-	-	Line 32 + Line 33
35	Forecasted 2004 Pension/PBOP Adjustment Amount	11.245	1.998	3.714	4.087	21.044	Line 6 + Line 29 + Line 34

Note 1: Includes Boston Edison pension deferral of \$4.198 million from D.P.U. 92-92

Note 2: Includes Cambridge Electric deferral and carrying charges of \$3.712 million from phase-in of SFAS 106 (D.P.U 92-250)

Note 3: This before-tax factor is equal to the after-tax factor of 8.16 percent authorized by the Department.

Note 4: The balances have been reduced by 5.07% to eliminate the amount recovered from transmission customers (3.54%) and non-utility businesses (1.53%).

**2005 Pension Adjustment Mechanism
Recoverable Pension and PBOP Plan Expenses For 2004 (\$'s in millions)**

Line	Account	NSTAR					Description
		Electric & Gas Co. *	Boston Edison	Cambridge Electric	Commonwealth Electric	NSTAR Gas	
		Col. B	Col. C	Col. D	Col. E	Col. F	Col. G
1	Account 926 Employee Benefits (2004 estimate)						Company Allocations
			51.89%	2.58%	21.91%	23.62%	
2	Pension cost (Account 926100), per FAS 87	\$ 31.547					
3	Charged to Capital (Account 926100)	(9.692)					
4	Pension Expense	\$ 21.855					30.72%
5	Recoverable Pension Plan Expense (926000 & 926760)		\$ 11.341	\$ 0.564	\$ 4.788	\$ 5.161	Sum of lines 2 and 3
6	Less: Transmission Component (Electric Only)		(0.401)	(0.020)	(0.169)	-	Line 1 * Col B, Line 4
7	Distribution Pension Expense		\$ 10.940	\$ 0.544	\$ 4.618	\$ 5.161	3.54%
							Sum of lines 5 and 6
8	PBOP cost (Account 926320)	\$ 27.275					
9	Charged to Capital (Account 926320)	(8.379)					
10	PBOP Expense	\$ 18.896					30.72%
11	Recoverable PBOP Plan Expense (926000 & 926760) **		\$ 9.806	\$ 0.488	\$ 4.140	\$ 4.462	Sum of lines 8 and 9
12	Less: Transmission Component (Electric Only)		(0.347)	(0.017)	(0.147)	-	Line 1 * Col B, Line 10
13	Distribution PBOP Expense		\$ 9.459	\$ 0.471	\$ 3.993	\$ 4.462	3.54%
							Sum of lines 11 and 12
14	Total Recoverable Distribution Pension and PBOP Plan Expenses		\$ 20.399	\$ 1.015	\$ 8.611	\$ 9.624	Sum of lines 5 and 11

* Total Benefits are charged to Utility Companies from NSTAR Electric & Gas Company. Recoverable amounts under this mechanism include only the components of the accounts attributable to pension and PBOP.

** Charges for service company employees are in account 926000, while charges for company direct employees are in account 926760.

**2004 Pension Adjustment Mechanism
Recoverable Pension and PBOP Plan Expenses For 2003 (\$'s in millions)**

Line	Account	NSTAR						Description
		Col. A	Col. B	Col. C	Col. D	Col. E	Col. F	
			Electric & Gas Co. *	Boston Edison	Cambridge Electric	Commonwealth Electric	NSTAR Gas	
1	Account 926 Employee Benefits (2003 Sep. - Dec.)							Col G
2	Pension cost (Account 926100), per FAS 87		\$ 15,504	51.89%	2.38%	21.91%	23.62%	Company Allocations
3	Charged to Capital (Account 926100)		(4,763)					
4	Pension Expense		\$ 10,741					
5	Recoverable Pension Plan Expense (926000 & 926760)			\$ 5,574	\$ 0,277	\$ 2,353	\$ 2,537	Sum of lines 2 and 3
6	Less: Transmission Component (Electric Only)			(0,197)	(0,010)	(0,083)	-	Line 1 * Col B, Line 4
7	Distribution Pension Expense			\$ 5,377	\$ 0,268	\$ 2,270	\$ 2,537	3.54%
8	PBOP cost (Account 926320)		\$ 12,953					
9	Charged to Capital (Account 926320)		(3,979)					
10	PBOP Expense		\$ 8,974					
11	Recoverable PBOP Plan Expense (926000 & 926760) **			\$ 4,657	\$ 0,232	\$ 1,966	\$ 2,119	Sum of lines 8 and 9
12	Less: Transmission Component (Electric Only)			(0,165)	(0,008)	(0,070)	-	Line 1 * Col B, Line 10
13	Distribution PBOP Expense			\$ 4,492	\$ 0,224	\$ 1,896	\$ 2,119	3.54%
14	Total Recoverable Distribution Pension and PBOP Plan Expenses			\$ 9,869	\$ 0,491	\$ 4,166	\$ 4,656	Sum of lines 11 and 12
								Sum of lines 5 and 11

* Total Benefits are charged to Utility Companies from NSTAR Electric & Gas Company. Recoverable amounts under this mechanism include only the components of the accounts attributable to pension and PBOP.

** Charges for service company employees are in account 926000, while charges for company direct employees are in account 926760.